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Special Report

The Corporate Tax Burden

by Paul G. Merski

With federal deficits hovering around $150 billion, the government will continue its drive for more revenues. Corporations are often targeted because they are said to be undertaxed. Despite statistical evidence to the contrary, this recurring theme seems to have a life of its own and always resurfaces when more revenues are required for increased spending. In fact, corporations carry a heavy tax burden and provide a large and growing percentage of the total tax revenue collected by the federal government.

Table I

Impact of Major Tax Legislation, Enacted 1981-1988[a], on Individual and Corporate Income Tax Receipts

Fiscal Years 1988-1992

($Billions)

Income Tax	1988	1989	1990	1991	1992
Individual	$ -201.4	$ -237.6	$ -259.4	$ -288.4	$ -326.9
Corporate	+24.0	+27.2	+33.7	+42.6	+43.7

[a] Budget effect revenue estimates are prepared by the Office of Management and Budget. They measure only the direct effect of tax legislative changes on receipts with "feedback" effect limited to the overall income forecast and its impact on receipts by major source.

Source: Budget of the U.S. Government, FY 1990

Recent Corporate Tax History

In 1981, Congress enacted a significant corporate tax cut under the Economic Recovery Tax Act of 1981 (ERTA). If it had been allowed to take effect fully, it would have substantially reduced overall corporate income tax liabilities in the 1980s. Instead, there were major contravening tax bills starting with the Tax Equity and Fiscal Responsibility Act (TEFRA) in 1982 and the Deficit Reduction Act (DEFRA) in 1984. Outside of the Tax Reform Act of 1986, the major drive behind tax legislation after 1981 was purely and simply to increase tax revenues. The Tax Reform Act of 1986 obliterated the capital recovery and business tax relief of 1981 and effectively piled on significant net increases in corporate tax liabilities after 1986. More recently, further increases in corporate income taxes have occurred as a result of the Omnibus

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Table II

Federal Corporate Income Tax Receipts

Selected Fiscal Years 1950-1990

Year	Federal Corporate Income Tax Receipts ($Billions)	% of Total Federal Income Tax Receipts
1950	$ 10.4	39.9 %
1955	17.9	38.3
1960	21.5	34.6
1965	25.5	34.3
1970	32.8	26.6
1971	26.8	23.7
1972	32.2	25.3
1973	36.2	25.9
1974	38.6	24.5
1975	40.6	24.9
1976	41.4	23.9
1977	54.9	25.8
1978	60.0	24.9
1979	65.7	23.2
1980	64.6	20.9
1981	61.1	17.6
1982	49.2	14.2
1983	37.0	11.4
1984	56.9	16.1
1985	61.3	15.5
1986	63.1	15.3
1987	83.9	17.6
1988	94.5	19.1
1989	106.9 (e)	21.6
1990	117.4 (e)	23.7

Source: Economic Report of The President, various years.

(e) estimate

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Budget Reconciliation Act of 1987 and the Continuing Resolution for 1988. Table I on page 1 compares the effect of major enacted legislation in the 1981-1988 period on individual and corporate income taxes currently and projected through 1992. Individuals' taxes are markedly lower than they would have been without the legislation, but the corporate sector is another story entirely.

Table III

Total Before-Tax Corporate Profits

Selected Years, 1950-1989

Year	Total Before-Tax Corporate Profits ($Billions)	Percent of National Income	Year	Total Before-Tax Corporate Profits ($Billions)	Percent of National Income
1950	$ 42.9	18.0 %	1978	$ 233.5	12.7 %
1955	49.2	14.6	1979	257.2	12.6
1960	49.9	11.7	1980	237.1	10.8
1965	77.4	13.2	1981	226.5	9.3
1970	76.0	9.1	1982	169.6	6.7
1971	87.3	9.7	1983	207.6	7.6
1972	101.5	10.2	1984	240.0	7.9
1973	127.2	11.3	1985	224.3	6.9
1974	138.9	11.5	1986	221.6	6.5
1975	134.8	10.4	1987	266.7	7.3
1976	170.3	11.8	1988	306.8	7.7
1977	200.4	12.4	1989(e)	295.3	7.0

Source: Department of Commerce, Bureau of Economic Analysis.
(e) - estimate.

Corporate Share of Tax Burden

What is the corporate share of the income tax burden? Over the long term it has shrunk as a share of total income taxes, but with some special factors affecting the trend.

" . . . the Tax Reform Act (TRA) of 1986 will raise an additional $24 billion in corporate tax revenues this year alone. Nearly everything provided in the so-called 'corporate giveaway' of 1981 was taken back before the benefits could be fully realized."

As Table II on page 1 indicates, there was a precipitous drop-off in corporate income tax receipts, both absolutely and as a percentage of total income taxes in 1982 and 1983. Corporate profit volatility causes corporate tax receipts to fluctuate more widely than individual receipts, and the severe recession of 1981-1982 had its maximum impact on tax revenues in fiscal 1982 and 1983. This was also the period when the Accelerated Cost Recovery System (ACRS) first took hold. More rapid depreciation, of course, helped depress tax collections initially, although this would be made up in later years.

Starting in 1984, corporate income tax collections increased steadily, leaping from a low of $37 billion in 1983 to a record $94.1 billion in 1988. The growth in corporate tax revenue has coincided with better business conditions in recent years and, of course, the implementation of the 1982, 1984, and 1986 tax bills which increased corporate tax burdens. The Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 repealed more than half of the benefits provided by ERTA to corporations in 1981. The Deficit Reduction Act (DEFRA) of 1984 further reduced corporate depreciation allowances. In fact, the Tax Reform Act (TRA) of 1986 will raise an additional $24 billion in corporate tax revenues this year alone. Nearly everything provided in the so-called "corporate giveaway" of 1981 was taken back before the benefits could be fully realized.

Critical factors involved in accurately examining the trend in corporate taxes are both the level of corporate profits and their share of the national income. Table III shows that the trend in corporate profits as a percentage of national income has been irregularly downward since the 1950s. In fact, this downtrend has closely paralleled that of corporate tax receipts as a percent of total income taxes through 1986, where we start to see a slight upward swing. The decline in corporate profits alone explains much of the long-term decline in the proportion of corporate income taxes represented in the total tax revenue picture.

The Corporate Tax Burden

A good indicator of the corporate tax

burden is a comparison of corporate taxes with corporate profits. When looking at the corporate taxes, federal corporate income taxes are only part of the picture. Table IV illustrates the overall burden of federal corporate income tax when it is combined with the rapidly increasing state/local corporate income taxes and corporate payroll taxes. Such payments can be partially deducted for federal corporate income tax purposes, but they are a substantial and growing burden nonetheless.

"The combined federal, state and local corporate income tax take has risen steadily since 1982, far surpassing the level of the early 1970s."

For comparability, corporate tax accruals net of Federal Reserve earnings are used instead of actual tax receipts. Given today's full acceleration of corporate tax payments, the accruals figures are close to tax payments.

While Federal corporate income tax revenues have risen 52 percent since 1980, state/local corporate income tax revenues have increased 73 percent for the decade and in 1989 represented 28 percent of the federal tax take. The combined federal, state and local corporate income tax take has risen steadily since 1982, far surpassing the level of the early 1970s.

The largest element of the business tax burden has become the payroll sector, particularly federal social security and hospital insurance. Furthermore, state unemployment insurance and other social insurance funds have intensified

Table IV
Federal and State/Local Corporate Income Taxes and Corporate Payroll Taxes
National Income Account Series
1970-1989
(in Billions of Dollars)

Year	A Corporate Profits	B Federal Corporate Income Tax Accruals[a]	C Effective Rate of Federal Tax (B/A)	D State/Local Corporate Income Tax Accruals	E Effective Rate of Federal and State/ Local Tax (B+D/A)	F Corporate Payroll Taxes[b]	G Inc. & Payroll Taxes Relative to Corp. Profits (B+D+F/A)
1970[c]	$ 72.4	$ 27.1	37.4 %	$ 3.7	42.5 %	-	-
1971	84.0	30.1	35.8	4.3	41.0	-	-
1972	98.1	33.4	34.0	5.3	39.4	$ 22.7	62.6 %
1973	122.7	39.0	31.8	6.0	36.7	29.5	60.7
1974	133.2	39.5	29.7	6.7	34.7	33.2	59.6
1975	129.1	38.2	29.6	7.3	35.2	33.6	61.3
1976	164.3	48.7	29.6	9.6	35.5	39.8	59.7
1977	194.2	55.7	28.7	11.4	34.6	45.4	57.9
1978	225.8	64.4	28.5	12.1	33.9	53.7	57.7
1979	247.6	65.1	26.3	13.6	31.8	62.2	56.9
1980	225.2	58.6	26.0	14.5	32.5	66.6	62.0
1981	212.0	51.7	24.4	15.4	31.7	77.6	68.3
1982	154.0	33.8	21.9	14.0	31.0	81.7	84.1
1983	192.8	47.1	24.4	15.9	32.7	89.0	78.8
1984	223.3	59.1	26.5	18.7	34.8	104.4	81.6
1985	224.3	58.5	26.1	20.2	35.1	107.6	83.1
1986	221.6	66.0	29.8	22.5	39.9	113.6	91.2
1987	266.7	83.3	31.2	23.7	40.1	118.1	84.4
1988	306.8	94.1	30.7	26.5	39.3	132.9	82.6
1989[d]	295.3	89.0	30.1	25.1	38.6	150.0	89.4

[a] Net of Federal Reserve Earnings.
[b] Includes corporate employer share of OASDHI, state unemployment insurance tax, federal unemployment tax, railroad unemployment insurance and retirement, and workers' compensation.
[c] Includes some effect from Vietnam period surcharge.
[d] Estimates based on first three quarters of 1989.
Sources: Economic Reports of the President, various years; published and unpublished statistics of the Department of Commerce, Bureau of Economic Analysis, and Tax Foundation Computations.

the tax burden. These taxes are not imposed on net income, and some economists argue that even the employer share of payroll taxes is borne by employees who receive lower rates of compensation and benefits than they would in the absence of these taxes. However, where labor is relatively scarce and/or subject to rigidities in compensation, that burden may have been absorbed by the employer. The corporate share of payroll taxes has far outstripped corporate income taxes and currently costs about $150 billion.

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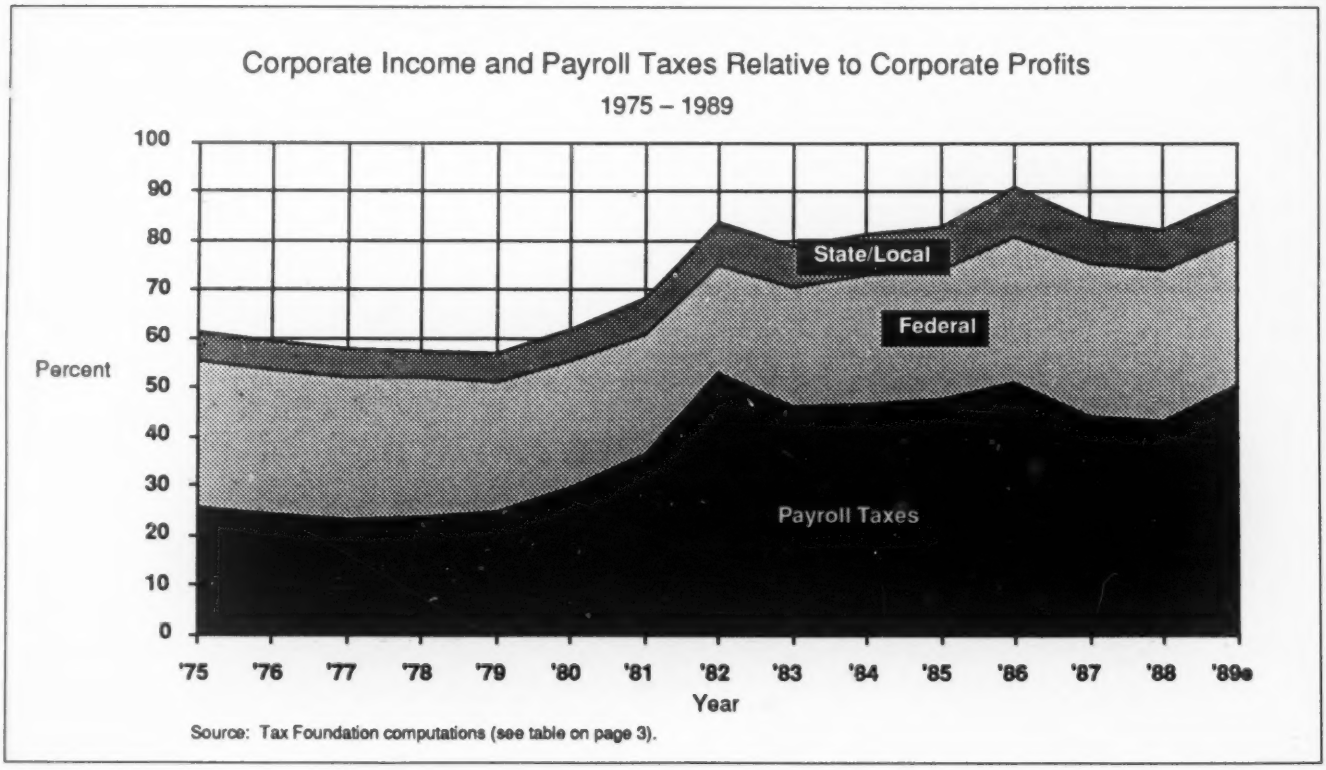
Over the past decade, the combined increases in federal income taxes and the state/local and payroll taxes have caused a tremendous increase in the overall corporate tax burden. Compared to profits, the burden increased 32.5 percentage points from 56.9 percent in 1979 to 89.4 percent by 1989. Throughout the 1970s, this rate averaged only about 60 percent. The 1989 overall corporate tax burden, representing a whopping 89 percent of corporate profits, is huge by historic comparison. Federal deficit pressure and the sharp growth trend in state and payroll taxes can easily push this burden even higher.



Source: Tax Foundation computations (see table on page 3).

The Tax Foundation is a nonprofit, nonpartisan research and public education organization founded in 1937 to monitor tax and fiscal activities at all levels of government. It now operates as a separate unit of Citizens for a Sound Economy Foundation.